



NORTH DAKOTA DEVELOPMENT FUND

ANNUAL REPORT 2014

A large red combine harvester is shown in a field, with its complex mechanical parts, including the auger and threshing components, visible. The harvester is positioned diagonally across the frame, with its front end towards the bottom left. The background shows a vast, flat landscape under a clear sky.

SUPPORTING BUSINESS GROWTH THROUGH FINANCING AND INVESTMENT

Table of Contents

North Dakota Development Fund Board Members.....	4
Development Fund Staff.....	4
A Tool for Economic Development.....	5
Letter from the CEO.....	6
North Dakota Development Fund: By the Numbers.....	7
Development Fund Investment Locations.....	8
Development Fund Projects.....	9

DEVELOPMENT IN ACTION

Harvest Fuel, Inc. (dba SweetPro Feeds).....	10
Kristina's Child Care.....	11
Myriad Mobile, LLC.....	12
Horsch Anderson, LLC.....	13
Abbiamo Pasta.....	14

FINANCIALS

Independent Auditor's Report.....	15
Management's Discussion and Analysis.....	18

Financial Statements

Balance Sheets.....	22
Revenues, Expenses and Changes in Net Positions.....	23
Cash Flows.....	24
Notes to Financial Statements.....	26

Combining Financial Statements and Supplementary Information

Combining Balance Sheets.....	35
Combining Statements of Revenue, Expenses and Changes in Net Positions.....	36
Combining Statements of Cash Flows.....	37



Jack Dalrymple
Governor

North Dakota Development Fund Board Members

The Governor appoints an eight-member Board of Directors that oversees the North Dakota Development Fund. Each member represents a different business sector from the state.

Richard McKennett, Chairman – Williston
Member-at-Large

Gary Goplen – Carrington
Rural Sector

Bob McNeill, Vice-Chairman – Dickinson
Private Sector

Darcy Volk – Bismarck
Exported Services Sector

John Erickson – Grand Forks
Industrial Technology and Research Sector

Terri Zimmerman – Fargo
Finance Sector

Rob Gayton – Mandan
Native American Sector

Al Anderson – Bismarck
*Commissioner of North Dakota
Department of Commerce*



Al Anderson, Commissioner
ND Department of Commerce

Development Fund Staff

"The North Dakota Development Fund is a valuable resource for business development, providing a strong return on investment for taxpayers and significantly contributing to job creation. As we continue to grow our economy and create opportunities for our citizens, it is important that we provide the financing resources needed to help support business start-up or expansion projects in our state."

– Jack Dalrymple, Governor

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A Tool for Economic Development

The North Dakota Development Fund was created through legislation in 1991 as an economic development tool. It provides flexible gap financing through debt and equity investments for new or expanding North Dakota primary sector businesses.

The Development Fund makes investments of up to \$300,000. The board of directors may adjust the limit when deemed appropriate. In general, the following criteria apply to Development Fund investments:

- The entrepreneur must have a realistic financial commitment at stake. Usually, principals are required to have a minimum of 15 percent equity in the project.
- Refinancing of debt is not eligible.
- Principal shareholders with 20 percent or greater ownership are generally required to guarantee the debt. Other shareholders may also be required to guarantee.
- The Development Fund will not participate in more than 50 percent of a project's capitalization needs.
- Financing is available to any primary sector business project with the exception of production agriculture.
- Primary sector includes individuals and businesses which, through the employment of knowledge or labor, add value to a product, process or service which results in the creation of new wealth. Primary sector includes tourism and specific types of investor-owned agriculture, and is typically businesses such as manufacturers, food processors or export service companies. Investor-owned agriculture includes livestock feeding or milking operations, or other value-added agriculture located apart from an individual farm operation that is professionally managed and has employees.



The Development Fund offers financing to any primary sector business project with the exception of production agriculture.



Tourism, specific types of value-added agriculture and investor-owned agriculture can also qualify as primary sector.

Loan and equity programs managed by the North Dakota Development Fund include:

- North Dakota Development Fund
- Regional Rural Revolving Loan Fund
- Rural Incentive Growth Loan Program
- Small Business Technology Program
- Child Care Loan Program
- New Venture Capital Program
- Entrepreneur Loan Program
- Entrepreneurial Center Loan Program



Dean Reese, CEO
ND Development Fund

Letter from the CEO

The Development Fund invested \$4,171,969 in 22 “primary sector” and child care businesses from July 1, 2013 to June 30, 2014. The Development Fund has provided “gap” financing in which the Fund’s investments, since inception, have reached \$103 million.

With the Development Fund’s dollars invested, there has been \$30,667,279 leveraged from other financing institutions resulting in a \$7.35 to \$1 ratio - for every Development Fund dollar invested \$7.35 was invested from other sources.

The investments made by the Development Fund in 2013 to 2014 contributed to the projected creation of 169 jobs in the primary and child care sector.

The Development Fund reported an estimated June 30, 2014 fiscal year-end operating income of \$242,595 before bad debt expense, as compared to \$311,678 for the fiscal year-end 2013. The decrease in income is attributable to a decrease in interest income and an increase in general and administrative expenses. The Development Fund saw an increase in general and administrative expenses of \$42,829 from 2013 to 2014. The Development Fund continues to pay all operating costs including salaries and benefits. The cash flow generated from principal and interest collections continues to be strong at \$4.3 million. The Development Fund continues to be a “revolving” loan fund and has collected \$8.9 million the past two years, which in turn can be used for future loan and equity investments.

Operating income (loss) before nonoperating revenues (expense) increased by \$490,665 from \$176,863 in 2013 to \$667,528 in 2014. The increase in operating income was due mainly to the decrease in the allocation to bad debt expense for the year.

Since the inception of the Development Fund, it has invested \$103 million in 555 companies with over \$33 million invested in rural communities. The investments have contributed to the projected creation of 10,683 primary sector jobs. The Development Fund helped seven start-up businesses begin operations in North Dakota in 2013 to 2014, four of which were in rural communities.

In providing flexible financing, the Development Fund helped “primary sector” businesses and child care businesses start up or expand, which in turn created new jobs and generated new revenues. What follows are highlights of 2014 along with the accompanying financial statements.

A handwritten signature in black ink that reads "D.T. Reese". The signature is fluid and cursive, with the first name "D.T." being more prominent.

Dean Reese, CEO
North Dakota Development Fund

Investments made by
the Fund have contributed
to the projected creation
of 10,683 primary
sector jobs.

North Dakota Development Fund: By the Numbers

Development
Fund Inception:

1991



\$7.35:\$1

return on investment

10,683 primary
sector jobs created
since fund inception



Business sectors include:



Technology



Value-Added
Agriculture



Tourism



Manufacturing



Child Care

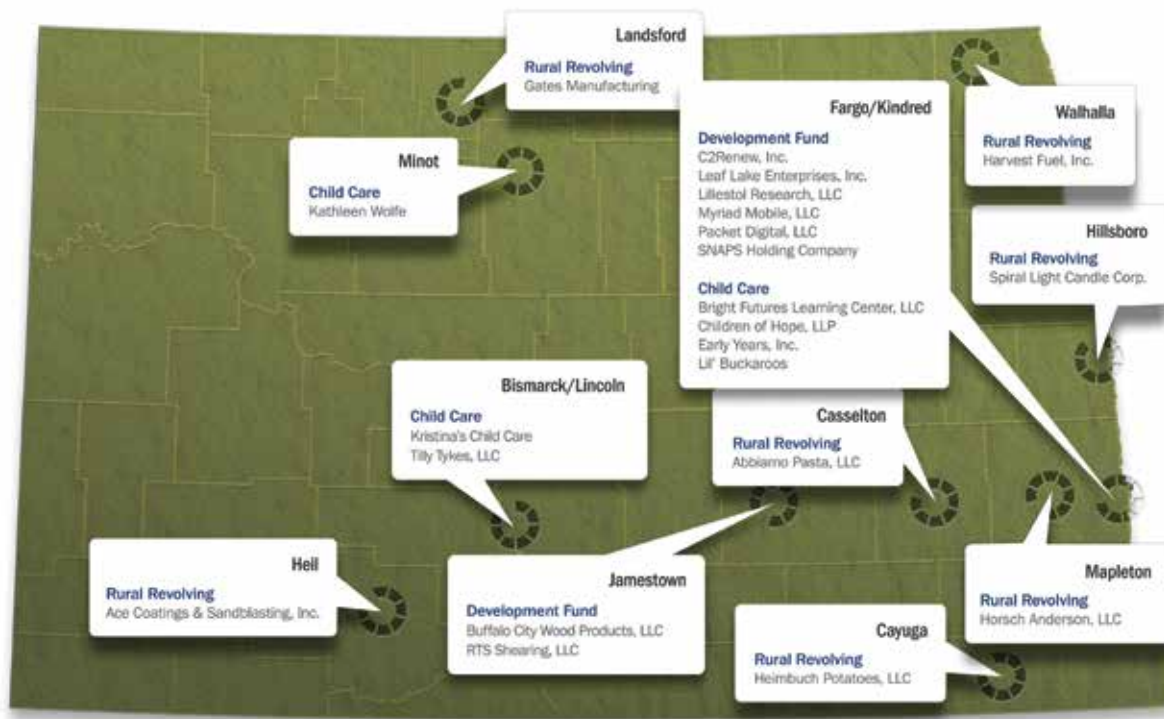
555

COMPANIES

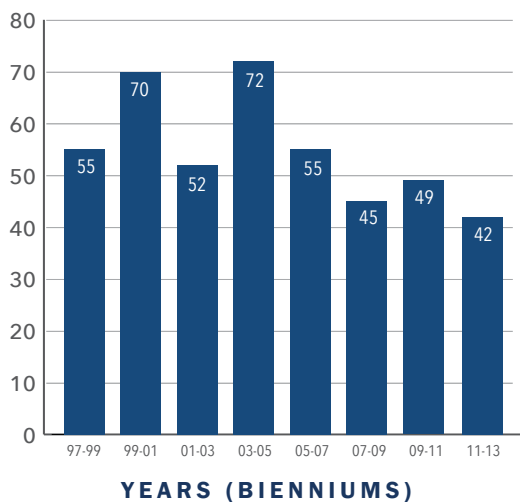
Investing in **555**
North Dakota companies
since fund inception

Development Fund Investment Locations

July 1, 2013 to June 30, 2014

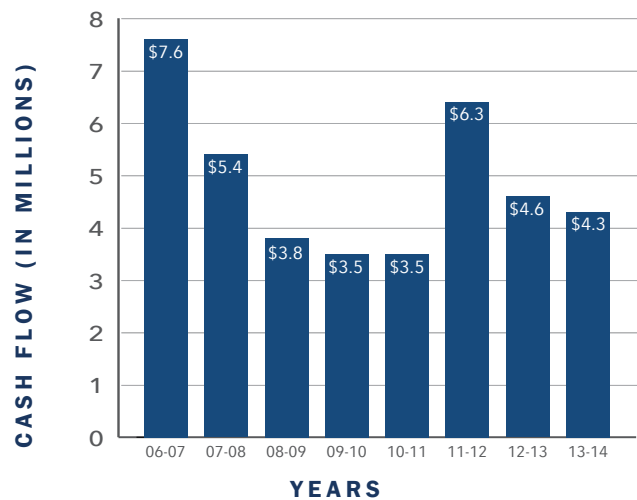


Growth in Development Fund Projects



The Development Fund invested in 23 projects from 2013-14. The number of projects funded to date are on track to meet or exceed the number of projects from the last biennium (2011-2013).

Development Fund Cash Flow



The Development Fund collected \$4.3 million in 2013-14, averaging \$5.02 million in collections in the past eight years. The Development Fund continues to revolve and the funds collected continue to be used to fund future loan and equity investments in the state.

Development Fund Projects

July 1, 2013 to June 30, 2014

Development Fund

Buffalo City Wood Products, Inc.	Jamestown	\$ 72,000
C2Renew, Inc.	Fargo	\$ 150,000
Leaf Lake Enterprises, Inc.	Fargo	\$ 75,000
Lillestol Research, LLC	Fargo	\$ 135,000
Myriad Mobile, LLC	Fargo	\$ 175,000
Packet Digital, LLC	Fargo	\$ 250,000
RTS Shearing, LLC	Jamestown	\$ 500,126
SNAPS Holding Company	Fargo	\$ 150,000

Regional Rural Revolving Loan Fund

Abbiamo Pasta, LLC	Casselton	\$ 615,000
Ace Coatings & Sandblasting, Inc.	Heil	\$ 150,000
Gates Manufacturing, Inc.	Lansford	\$ 300,000
Harvest Fuel, Inc.	Walhalla	\$ 300,000
Heimbuch Potatoes, LLC	Cayuga	\$ 77,625
Horsch Anderson, LLC	Mapleton	\$ 600,000
Spiral Light Candle Corporation	Hillsboro	\$ 138,390

Child Care Loans

Bright Futures Learning Center, LLC	Fargo	\$ 100,000
Children of Hope, LLP	Fargo	\$ 65,000
Early Years, Inc.	Fargo	\$ 99,000 *
Kathleen Wolfe	Minot	\$ 40,828
Kristina's Child Care	Bismarck	\$ 100,000
Lil' Buckaroos	Kindred	\$ 19,000
Tilly Tykes, LLC	Lincoln	\$ 60,000

Total: \$ 4,171,969

**23 projects with 22 businesses*

(Early Years, Inc. had 2 separate requests, but were combined as one project)

Harvest Fuel, Inc. (dba SweetPro Feeds) – Walhalla

REGIONAL RURAL REVOLVING LOAN FUND

It started as a raw concept: Bob Thornberg recognized a need to make feed supplements available to pasture livestock in a convenient, safe and nutritious formulation. He believed that by adding key nutrients to typical feed via lick blocks, top dressings and other products, he could improve livestock digestion and overall animal health.

Thornberg's foresight became a reality in 1991 when he founded SweetPro Feeds. Today, 23 years and six patents later, SweetPro is a thriving North Dakota business. In 2002, SweetPro developed ProBiotein, a proprietary blend additive that has been so successful that it is now being evaluated for human consumption.

"The Development Fund has been important, and very timely, as we look to meet both ends of operations," explains Thornberg. "It's hard to get an understanding of what we're doing, so it's been psychologically very beneficial to have the support of the Development Fund because it allows banks and other financial

institutions to have more comfort and confidence investing with us."

The Development Fund supported the recent acquisition of a Walhalla, North Dakota wheat gluten processing plant that SweetPro plans to use for both a SweetPro Feeds warehouse and a ProBiotein manufacturing facility as operations scale up.

"Right now, we are selling from a test kitchen as we feel out the market for ProBiotein on the [human] food side," says Thornberg. "But if demand increases, as we anticipate it will, we're prepared to rev up operations fast with this facility."

Thornberg says that because of the support of the Development Fund, SweetPro is prepared to expand ProBiotein production as it makes its way into the market via social media and other public relations outlets.

"It will take us a fraction of the time it would if we were starting from scratch," he says.

"The Development Fund
has been important...
because it allows banks
and other financial
institutions to have more
comfort and confidence
investing with us."

– Bob Thornberg, President
Harvest Fuel, Inc.



SweetPro Feeds is already anticipating ramping up operations at its new facility to meet demand as their market share grows.

Kristina's Child Care – Bismarck

CHILD CARE



The Development Fund provides key financing for child care facilities looking to start or expand their facilities.

Kristina Puhalla loves working with children. In 2008, she earned her Early Childhood Education Associates Degree and spent the next few years working in child care centers and home daycares in Bismarck. The experience confirmed what she always believed: she wanted to own a daycare, but Puhalla wasn't sure how, or where, to start.

"My dad is the one that found out about North Dakota's Development Fund," she explains.

The Development Fund provided funding to Puhalla to begin a daycare center. When she set out to operate her daycare, she had two requirements: a walk-out

basement large enough to house her daycare center, and a fenced backyard where the children could play.

"After a year here, I have a full daycare," says Puhalla. "I am licensed to have 12 children, but in order to have that many, I need to hire an assistant." And she says she would like to do that. "My plan is to expand the daycare facility so that I can make it bigger for the children to run and roam in the long winter months."

Puhalla says that without help these plans would have been difficult to put in place. "The Development Fund really got my life started," she says.

"After a year here, I have a full daycare...the Development Fund really got my life started."

– Kristina Puhalla, Owner
Kristina's Child Care



Demand for child care facilities in North Dakota has increased steadily with the increase in the state's population.

Myriad Mobile, LLC – Fargo

DEVELOPMENT FUND

It's almost urban folklore: two visionary college students identify a business opportunity and then launch a tech business from the desks of their dorm room.

Myriad Mobile of Fargo, North Dakota is not urban folklore. It's a thriving mobile technology company which is fulfilling a market need for app development and seeing exponential growth in the process. The two college friends, Jake Joraanstad and Ryan Raguse, now reside at the head of the company as Chief Executive Officer and President/Chair, respectively.

Since its inception in 2011, Myriad Mobile has seen year-on-year growth well above 400 percent (in 2012, the company hit an incredible 800 percent increase in sales). Today, there are over 60 employees based in the Fargo headquarters, and Myriad Mobile has its sights set on becoming one of the top three mobile development companies in the United States.

The Development Fund provides the growth capital Myriad Mobile needs to continue on this trajectory.

"Our business is our people and their talents," says President and Chair Ryan Raguse. "The Development Fund provides capital, which gives us the ability to hire and train people."

Raguse says there is a deep talent pool in the Fargo community, and Myriad Mobile is devoted to tapping into that. The company hires an array of North Dakota State University, Concordia College, and Minnesota State University Moorhead graduates.

The Development Fund assists with recruitment, as well. "We have new hires moving to Fargo from Minneapolis, Chicago and Denver," explains Raguse. "This city is a tight-knit community, and a great place to foster new businesses."

"Our business is our people and their talents. The Development Fund... gives us the ability to hire and train."

– Ryan Raguse, President
Myriad Mobile, LLC



Headquartered in Fargo, Myriad Mobile has grown from a handful of engineers to 60+ full time employees in seven markets across the nation.

Horsch Anderson, LLC – Mapleton

REGIONAL RURAL REVOLVING LOAN FUND



Horsch's new manufacturing facility in Mapleton is helping them meet growing demand for their product.

Horsch Anderson, LLC's mission statement reads: "To provide agricultural solutions through innovative equipment." The company's new manufacturing facility in Mapleton, North Dakota is evidence that Horsch Anderson is striving to fulfill that mission.

Jim Peterson, Chief Financial Officer at Horsch Anderson, says that the cutting edge facility recently constructed near the intersection of two interstate highways affords the company brand visibility, flexibility in the transport of equipment and components, and an improved capacity for production.

"This is a 111,000 square foot complex, with state of the art powder coat systems and overhead cranes. In this facility, we can assemble, fabricate and paint our planting and tillage equipment," says Peterson.

The Development Fund was a fundamental source of capital for this facility, which is responsible, initially, for the production of the Joker MT and RT tillage tool series.

"Horsch Anderson, LLC, a South Dakota-based company, was attracted to the North Dakota location and the growth occurring there," explains Peterson. "We tapped into multiple sources and funds to establish our \$12.6 million headquarters in Mapleton. The North Dakota Development Fund was a key funding source that helped us build this facility...which [will further enable] us to bring quality products to the American farmer."

Horsch Anderson, LLC is a partnership consisting of Horsch Maschinen in Germany, one of the largest producers of agricultural machinery in Europe, Harper Industries of Harper, Kansas and Kory Anderson, president.

"We tapped into multiple sources and funds to establish our \$12.6 million headquarters in Mapleton. The Development Fund was a key funding source."

– Jim Peterson, Chief Financial Officer – Horsch, LLC



A Horsch employee puts finishing touches on a tiller. Capital from the Development Fund helped make a new 111,000 square foot facility a reality.

Abbiamo Pasta – Casselton

REGIONAL RURAL REVOLVING LOAN FUND

What does North Dakota, where buffalo roam, have in common with Italy, where olive groves flourish? One North Dakota company has a namesake that, quite literally, identifies a commonality.

Abbiamo Pasta, which translates from Italian to English as “We Have Pasta”, is a pasta manufacturing company based in Casselton, North Dakota. Its founders believed that North Dakota was the right place for their business. The Development Fund provided capital as they took steps to build their company.

“We felt that there was a need for additional pasta manufacturing in North Dakota,” says Glen Kessler, plant manager at Abbiamo Pasta. “The raw materials needed to make quality pasta are grown [right here] in eastern North Dakota.”

“The Development Fund allowed us to establish our business in North Dakota,” says Kessler. “We began building our plant in May 2013 and started producing pasta on March 11, 2014.”

Additionally, the Development Fund “helps us to create job opportunities for people in North Dakota,” says Kessler. “We hope to continue to grow and hire more people from our state.”



Abbiamo Pasta started producing pasta in Casselton in March 2014 and is now shipping product and looking towards future growth.

“The Development Fund allowed us to establish our business in North Dakota...helps us to create job opportunities for people in North Dakota.”

– Glen Kessler, Plant Manager
Abbiamo Pasta



Using North Dakota grown raw materials, Abbiamo features pasta in a number of different extruded shapes and sizes. They hope to continue to expand offerings to meet demand.



Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of North Dakota Development Fund, Inc., a component unit of the state of North Dakota, as of June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Development Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Dakota Development Fund, Inc. as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the North Dakota Development Fund, Inc. are intended to present the financial position and the change in financial position of only that portion that is attributable to the transactions of the North Dakota Development Fund, Inc. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements shown on pages 21 through 30 are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2014 on our consideration of North Dakota Development Fund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota Development Fund, Inc.'s internal control over financial reporting and compliance.

Bismarck, North Dakota
September 18, 2014

North Dakota Development Fund, Inc.
Management's Discussion and Analysis
June 30, 2014

The discussion and analysis of the financial performance of the North Dakota Development Fund, Inc. that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2014. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

Total revenue decreased by \$29,610 (4.0%) to \$714,792. Operating revenues decreased by \$26,254 (3.62%) to \$708,465. Cash flow decreased by \$228,337 (5.00%) to \$4,335,744. The Fund collected \$3,512,408 in principal payments in 2014, which was a decrease of \$297,336 (7.75%) from 2013. The decrease in total and operating revenue is attributable to a decrease in interest earned on loans due to lower interest rates on loans made and reduced interest rates on deposits at the Bank of North Dakota. An increase in the Gain on Sale of Investments & other Income helped reduce the decrease in Interest Income on loans. The decrease in total principal funds collected was attributable to reduced payouts of loans on the books of the North Dakota Development Fund as compared to 2013.

The Fund received \$44,091 in dividend payments in 2014 from equity investments made, an increase from the \$40,624 received in dividend payments in 2013.

General & Administrative expense increased by \$42,829 (10.13%) from \$420,663 in 2013 to \$463,492 in 2014. The increase was attributable to repo expense, which was expensed in 2014 and the expense was credited back when the assets were sold, but were posted in 2015. The increase was also attributable to normal increases in rent, salaries & benefits and service contracts on the NDDEF's loan & accounting software.

Operating Income (loss) before non-operating revenues & expenses increased by \$490,665 from \$176,863 in 2013 to \$667,528 in 2014. The increase in the operating income (loss) in 2014 was attributable to a decrease in reserve for bad debt expense.

Interest income on deposits decreased by \$3,356 (33.89%) from \$9,683 received in 2013 to \$6,327 received in 2014. The decrease was the result of decreased interest rates received on deposits at the Bank of North Dakota.

The change in net position increased by \$1,737,309 from \$186,546 in 2013 to \$1,923,855 in 2014. The increase was attributable to the North Dakota Development Fund allocating less funds to Bad Debt Expense in 2014 and child care fund appropriations released from restriction as noted on the accompanying schedules.

Net position increased by \$1,923,855 from \$24,146,319 in 2013 to \$26,070,174 in 2014. The increase was attributable to the reduced amount that was reserved to bad debt expense in 2014 and \$1,250,000 in child care appropriations released from restriction.

North Dakota Development Fund, Inc.
Management's Discussion and Analysis
June 30, 2014

Noncurrent assets (excluding equipment) decreased by \$517,572 from \$6,573,893 in 2013 to \$6,056,321 in 2014. The noncurrent assets consist of the Fund's loan and equity investments. The equity investments made decreased by \$26,251 from 2013 to 2014. The equity investments that were charged off during 2014 were \$100,000 as compared to \$250,000 in 2013. The loan investments made decreased by \$493,298 from \$17,241,974 in 2013 to \$16,748,676 in 2014. The loan investments that were charged off during 2014 were \$244,751 as compared to \$195,147 in 2013. The decrease was attributable to the decline in loan and equity requests the Fund received in 2014 along with payouts being made on the equity investments along with the regular pay down of loans. Interest receivable on deposits & loans increased by \$5,300 to \$62,516. The receivable remained stable in 2014 due to the continued monitoring of past due accounts and not having to put additional accounts on non-accrual.

Current portion of loans receivable increased from \$4,150,406 in 2013 to \$4,918,115 in 2014. The increase was attributable to additional loans having payments due in the upcoming year along with loans maturing and lines of credit coming due.

Cash & cash equivalents increased by \$428,177 (2.93%) to \$15,038,628 (cash balance is before loan and investment commitments). The increase in Cash & Cash Equivalents was attributable to less dollars being invested in certificate of deposits due to the reduction in CD rates and wanting to put the funds to work in "Primary Sector" businesses in the State of North Dakota.

The Fund does invests their excess funds into longer term deposits for a higher rate of return to coincide with the funding commitments made by the Fund to companies for loans and equity investments, which are not required to be funded in the short-term. But, due to the low rate of interest being offered on certificate of deposits on a longer term, the North Dakota Development Fund has kept the excess funding liquid in saving accounts and putting the funds to work in loan and equity investments to "Primary Sector" businesses in the State of North Dakota.

23 projects were funded totaling \$4,171,969.

Required Financial Statements

The discussion and analysis are intended to serve as an introduction to the Development Fund's financial statements. The financial statements of the Development Fund provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net position. It also serves as a basis for analysis of the soundness and liquidity of the Development Fund. The statement of Revenues, Expenses and Changes in Net position summarize the Development Fund's operating performance for the year. The statements of Cash Flows summarize the flow of cash through the Development Fund as it conducts its business.

North Dakota Development Fund, Inc.
Management's Discussion and Analysis
June 30, 2014

**Condensed Balance Sheet
June 30, 2014 and 2013**

Assets	2014	2013	2012
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current assets	20,019,259	18,818,073	15,841,282
Capital assets	15,628	18,006	-
Noncurrent assets	6,056,321	6,573,893	9,382,144
Total noncurrent assets	<u>6,071,949</u>	<u>6,591,899</u>	<u>9,382,144</u>
Total assets	<u><u>\$ 26,091,208</u></u>	<u><u>\$ 25,409,972</u></u>	<u><u>\$ 25,223,426</u></u>
 Liabilities and Net Position			
Current liabilities	<u>\$ 21,034</u>	<u>\$ 1,263,653</u>	<u>\$ 1,263,653</u>
Invested in capital assets, net of related debt	15,628	18,006	-
Unrestricted	26,054,546	24,128,313	23,959,773
Total net position	<u>26,070,174</u>	<u>24,146,319</u>	<u>23,959,773</u>
Total liabilities and net position	<u><u>\$ 26,091,208</u></u>	<u><u>\$ 25,409,972</u></u>	<u><u>\$ 25,223,426</u></u>

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits with the Bank of North Dakota and are included in the current assets section of the balance sheet. Additional discussion of cash and cash equivalents can be found in Note 2 to the financial statements.

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Notes 4 and 5 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the balance sheet. Additional analysis of loans receivable can be found in Notes 6 and 7.

North Dakota Development Fund, Inc.
Management's Discussion and Analysis
June 30, 2014

**Condensed Statement of Revenues, Expenses and Changes in Net Position
for the Year Ended June 30, 2014 and 2013**

	2014	2013	2012
Operating Revenues			
Interest income on loans	\$ 553,514	\$ 630,443	\$ 584,339
Dividend income	44,091	40,624	162,738
Gain on sale of investment	36,600	10,330	8,214
Other	74,260	53,322	79,801
	<u>708,465</u>	<u>734,719</u>	<u>835,092</u>
Nonoperating Revenue			
State appropriations	-	-	1,000,000
Interest income on deposits	6,327	9,683	52,304
	<u>6,327</u>	<u>9,683</u>	<u>1,052,304</u>
Total Revenue	<u>714,792</u>	<u>744,402</u>	<u>1,887,396</u>
Operating Expenses			
General and administrative	463,492	420,663	420,867
Depreciation expense	2,378	2,378	-
Bad debt expense	(424,933)	134,815	648,850
	<u>40,937</u>	<u>557,856</u>	<u>1,069,717</u>
State Appropriations Released from Restriction	<u>1,250,000</u>	<u>-</u>	<u>-</u>
Change in Net Assets	1,923,855	186,546	817,679
Net Assets, Beginning of Year	<u>24,146,319</u>	<u>23,959,773</u>	<u>23,142,094</u>
Net Assets, End of Year	<u>\$ 26,070,174</u>	<u>\$ 24,146,319</u>	<u>\$ 23,959,773</u>

Contacting the North Dakota Development Fund's Financial Management

The information in this report is intended to provide the reader with an overview of the Development Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Development Fund, PO Box 2057, Bismarck, ND 58502-2057.

North Dakota Development Fund, Inc.

Balance Sheets

June 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 15,038,628	\$ 14,610,451
Interest receivable on deposits and loans	62,516	57,216
Current portion of loans receivable	4,918,115	4,150,406
Total current assets	20,019,259	18,818,073
Noncurrent Assets		
Loans receivable, net of current portion & allowance	5,981,321	6,573,893
Investments, net	75,000	-
Equipment, net	15,628	18,006
Total noncurrent assets	6,071,949	6,591,899
Net Assets	\$ 26,091,208	\$ 25,409,972
Liabilities and Net Position		
Current Liabilities		
Accrued expenses	\$ 21,034	\$ 13,653
Due to state	-	1,250,000
Total current liabilities	21,034	1,263,653
Net Position		
Invested in capital assets	15,628	18,006
Unrestricted	26,054,546	24,128,313
Total net assets	26,070,174	24,146,319
Total liabilities and net assets	\$ 26,091,208	\$ 25,409,972

See Notes to Financial Statements

North Dakota Development Fund, Inc.
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Interest income on loans	\$ 553,514	\$ 630,443
Dividend income	44,091	40,624
Gain on sale of investment	36,600	10,330
Other	74,260	53,322
	<u>708,465</u>	<u>734,719</u>
Operating Expenses		
General and administrative	463,492	420,663
Depreciation expense	2,378	2,378
Bad debt expense (change in allowance)	(424,933)	134,815
	<u>40,937</u>	<u>557,856</u>
Operating Income	<u>667,528</u>	<u>176,863</u>
Nonoperating Revenue		
Interest income on deposits and investments	6,327	9,683
	<u>6,327</u>	<u>9,683</u>
State appropriations released from restriction	<u>1,250,000</u>	<u>-</u>
Change in Net Position	1,923,855	186,546
Net Position, Beginning of Year	<u>24,146,319</u>	<u>23,959,773</u>
Net Position, End of Year	<u><u>\$ 26,070,174</u></u>	<u><u>\$ 24,146,319</u></u>

See Notes to Financial Statements

North Dakota Development Fund, Inc.
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Other receipts	\$ 147,460	\$ 77,008
Payments to suppliers	(456,111)	(420,663)
Net Cash used for Operating Activities	(308,651)	(343,655)
Investing Activities		
Interest received on cash and cash equivalents	598,633	690,516
Purchase of equipment	-	(20,385)
Purchase of equity investments	(36,600)	(210,330)
Proceeds from the sale of equity investments	108,544	9,935
Sale of investments	-	1,000,966
Disbursements of business loans	(3,446,157)	(2,029,500)
Principal payments received on business loans	3,512,408	3,809,744
Net Cash provided by Investing Activities	736,828	3,250,946
Net Change in Cash and Cash Equivalents	428,177	2,907,291
Cash and Cash Equivalents at Beginning of Year	14,610,451	11,703,160
Cash and Cash Equivalents at End of Year	\$ 15,038,628	\$ 14,610,451

See Notes to Financial Statements

North Dakota Development Fund, Inc.
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 667,528	\$ 176,863
Adjustments to reconcile operating		
loss to net cash from operating activities		
Gain on sale of investment	36,600	10,330
Depreciation	2,378	2,378
Allowance for doubtful loan receivables	(241,389)	(55,249)
Allowance for realized loss on investments	(183,544)	190,065
Reclassification of interest and dividend income	(597,605)	(668,042)
Changes in assets and liabilities		
Accrued expenses	7,381	-
Net Cash Used for Operating Activities	<u>\$ (308,651)</u>	<u>\$ (343,655)</u>
Supplemental Schedule of Noncash Activities		
Loans receivable written off	\$ 244,751	\$ 195,157
Equity investments written off	\$ 100,000	\$ 250,000

See Notes to Financial Statements

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Activities

The North Dakota Development Fund, Inc. (the Corporation) was established pursuant to Chapter 10-30.3 of the North Dakota Century Code as amended by the passage of Senate Bill 2058 during the 1991 legislative session. The Corporation is a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

The Corporation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain corporate functions or activities.

The following activities are used by the Corporation:

Development Fund

The Development Fund is used to account for fund investments, including equity positions, loans, loan guarantees, and other innovative financing mechanisms for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

Regional Rural Development Revolving Loan Fund

The Regional Rural Development Revolving Loan Fund is used to account for fund investments including equity positions, loans, loan guarantees, or debt financing on a matching basis to new or expanding primary sector businesses in rural areas.

Small Business Technology Investment Fund

The Small Business Technology Fund is used to provide matching investments to startup technology-based businesses.

Child Care Fund

The Child Care Fund is used to account for fund investments including loans and loan guarantees for new or expanding child care facilities in North Dakota.

The Corporation may form additional corporations, partnerships or other forms of business associations in order to further its mission.

The Director of the Department of Commerce Division of the Economic Development and Finance shall appoint the Chief Executive Officer of the Corporation. All investments, contracts, partnerships, limited liability companies, and business transactions of the Corporation are the responsibility of the Chief Executive Officer and the eight-member Board of Directors, who are appointed by the Governor.

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements, the Corporation should include all component units over which the Corporation exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Corporation. GASB further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Corporation or its constituents, and
- The Corporation or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Corporation is entitled to, or can otherwise access, are significant to the Corporation.

Based upon criteria set forth in GASB, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

Basis of Accounting

The Corporation is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Corporation operates primarily with appropriations from the general fund.

As a proprietary fund type, the Corporation accounts for its transactions using the accrual basis of accounting. Revenues are recognized for its transactions when they are earned, and expenses are recognized when they are incurred.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Concentration of Credit Risk

Loans receivable consist primarily of loans to new or expanding businesses in North Dakota or relocating businesses to North Dakota. The Corporation performs credit evaluations and maintains a security interest until related loans are collected.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenue, expenses, and changes in fund net position.

Equity Investments

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 4).

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Expense Allocation

The Development Fund pays all expenses of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of equity investments.

North Dakota Development Fund, Inc.

Notes to Financial Statements

June 30, 2014 and 2013

Fixed Assets and Depreciation

All fixed assets are recorded in the accompanying financial statements at cost. Donated fixed assets are stated at fair market value at the time of donation. Equipment with a cost greater than \$5,000 is capitalized and reported in the accompanying financial statements. The Corporation's fixed assets are being depreciated on a straight-line basis over estimated useful life of 3 years.

Loans

Loans are reported at their outstanding unpaid principal adjusted for charge-offs and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 to 120 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to a recovery account.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Subsequent Events

The Development Fund has evaluated subsequent events through September 18, 2014, the date the financial statements were available to be issued.

Note 2 - Deposits

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2014, the Corporation had the following:

	Fair Value	Less Than One Year
Cash		
Bank of North Dakota	\$ 15,038,628	\$ 15,038,628

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments.

Custodial and Concentration of Credit Risk

For deposits and investments, the custodial credit risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover collateral securities that are in possession of an outside party. The Corporation's deposits are uncollateralized. All of the Corporation's deposits are with the Bank of North Dakota.

Note 3 - Interest Receivable

Interest receivable at June 30, 2014 and 2013 is as follows:

	2014	2013
Interest receivable from loans	\$ 62,516	\$ 57,216
	\$ 62,516	\$ 57,216

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Note 4 - Equity Investments

Equity investments in business concerns as of June 30, 2014 and 2013 are as follows:

	2014	2013
Development Fund	\$ 1,824,849	\$ 1,851,100
Regional Rural Development Revolving Loan Fund	1,129,270	1,129,270
	2,954,119	2,980,370
Valuation allowance - other than temporary impairment	(2,879,119)	(2,980,370)
	<u>\$ 75,000</u>	<u>\$ -</u>

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

The Corporation acquired its investment by direct purchase from the issuer under investment representations, and the Board of Directors valued the securities on the premise that they may not be sold without registration under the Securities Act of 1933. The price of securities purchased was determined by direct negotiation between the Corporation and the seller.

Note 5 - Equity Investments – Valuation Allowance

Changes in the valuation allowance for equity investments as of June 30, 2014 and 2013 are as follows:

	2014	2013
Balance, beginning of year	\$ 2,980,370	\$ 4,278,818
Provision for equity investment losses	(183,546)	188,972
Transfers	182,295	(1,237,420)
Equity investments charged off	(100,000)	(250,000)
Balance, end of year	<u>\$ 2,879,119</u>	<u>\$ 2,980,370</u>

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Note 6 - Loans Receivable

Loans receivable at June 30, 2014 and 2013 are as follows:

	2014	2013
Development Fund	\$ 10,013,563	\$ 11,655,642
Regional Rural Development Revolving Loan Fund	5,791,239	4,659,860
Small Business Technology Program	50,000	50,000
Child Care Loan Program	893,874	876,472
	16,748,676	17,241,974
Allowance for loan losses	(5,849,242)	(6,517,677)
Loans receivable, net of allowance for loan losses	10,899,434	10,724,297
Less: current portion of loans receivable	4,918,115	4,150,406
Loans receivable, net of current portion	<u>\$ 5,981.319</u>	<u>\$ 6,573.891</u>

Note 7 - Allowance for Loan Losses

Changes in the allowance for loan losses as of June 30, 2014 and 2013 are as follows:

	2014	2013
Balance, beginning of year	\$ 6,517,677	\$ 5,529,318
Provision for loan losses	(241,389)	(53,904)
Transfers	(182,295)	1,237,420
Recovery of loans charged off	-	-
Loans charged off	(244,751)	(195,157)
Balance, end of year	<u>\$ 5,849,242</u>	<u>\$ 6,517,677</u>

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Note 8 - Equipment

A statement of changes in fixed assets for the years ended June 30, 2014 and 2013 is as follows:

	Balance 06/30/13	Additions	Deletions	Balance 06/30/14
Furniture and equipment	\$ 30,479	\$ -	\$ -	\$ 30,479
Computer software	78,188	-	-	78,188
Accumulated depreciation	(90,661)	(2,378)	-	(93,039)
	<u>\$ 18,006</u>	<u>\$ (2,378)</u>	<u>\$ -</u>	<u>\$ 15,628</u>
	Balance 06/30/12	Additions	Deletions	Balance 06/30/13
Furniture and equipment	\$ 10,095	\$ 20,384	\$ -	\$ 30,479
Computer software	78,188	-	-	78,188
Accumulated depreciation	(88,283)	(2,378)	-	(90,661)
	<u>\$ -</u>	<u>\$ 18,006</u>	<u>\$ -</u>	<u>\$ 18,006</u>

Note 9 - Due to State

In 2011, the State of North Dakota appropriated funds to the North Dakota Development Fund to develop a child care loan program for the purpose of providing loans to new and expanding child care facilities within the state of North Dakota. As of June 30, 2013, \$1,250,000 was due back to the state. On July 1, 2013 the State of North Dakota removed the due date for these appropriated funds. As such, \$1,250,000 is included in Net Position as of June 30, 2014.

Note 10 - Commitments and Contingencies

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2014 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$540,317.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2014 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$2,747,277.

North Dakota Development Fund, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

Child Care Provider Loan

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2014 for which funds have not been disbursed or written agreements entered into in the approximate amount of \$75,958.

Note 11 - Related Party Transactions

The financial statements of the North Dakota Development Fund, Inc. include a loan receivable from an entity partially owned by a member of the Board of Directors. The related party receivable balance was \$1,005,906 and \$730,000 as of June 30, 2014 and 2013, respectively. Additionally, the North Dakota Development Fund, Inc. had an equity investment in the same entity with a balance of \$125,002 as of June 30, 2014 and 2013.

Note 12 - Risk Management

North Dakota Development Fund, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of \$100,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Workforce Safety and Insurance, (WSI) an Enterprise Fund of the State of North Dakota. WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

North Dakota Development Fund, Inc.
Combining Balance Sheets
June 30, 2014 and 2013

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2014	2013
Assets						
Current Assets						
Cash and cash equivalents	\$ 9,009,013	\$ 4,828,160	\$ 249,298	\$ 952,157	\$ 15,038,628	\$ 14,610,451
Interest receivable on deposits and loans	47,922	13,345	1,249	-	62,516	57,216
Current portion of loans receivable	3,677,407	1,077,199	163,509	-	4,918,115	4,150,406
Total current assets	<u>12,734,342</u>	<u>5,918,704</u>	<u>414,056</u>	<u>952,157</u>	<u>20,019,259</u>	<u>18,818,073</u>
Noncurrent Assets						
Loans receivable, net of current portion and allowance	2,507,859	3,149,209	324,253	-	5,981,321	6,573,893
Investments, Net	-	75,000	-	-	75,000	-
Equipment, net	15,628	-	-	-	15,628	18,006
Total noncurrent assets	<u>2,523,487</u>	<u>3,224,209</u>	<u>324,253</u>	<u>-</u>	<u>6,071,949</u>	<u>6,591,899</u>
Total assets	<u>\$ 15,257,829</u>	<u>\$ 9,142,913</u>	<u>\$ 738,309</u>	<u>\$ 952,157</u>	<u>\$ 26,091,208</u>	<u>\$ 25,409,972</u>
Liabilities and Net Position						
Current Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued expenses	21,034	-	-	-	21,034	13,653
Due to state	-	-	-	-	-	1,250,000
Total liabilities	<u>21,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,034</u>	<u>1,263,653</u>
Net Position						
Invested in capital assets, net of related debt	15,628	-	-	-	15,628	18,006
Unrestricted	15,221,167	9,142,913	738,309	952,157	26,054,546	24,128,313
Total net position	<u>15,236,795</u>	<u>9,142,913</u>	<u>738,309</u>	<u>952,157</u>	<u>26,070,174</u>	<u>24,146,319</u>
Total liabilities and net position	<u>\$ 15,257,829</u>	<u>\$ 9,142,913</u>	<u>\$ 738,309</u>	<u>\$ 952,157</u>	<u>\$ 26,091,208</u>	<u>\$ 25,409,972</u>

North Dakota Development Fund, Inc.
Combining Statements of Revenue, Expenses and Changes in Net Positions
Years Ended June 30, 2014 and 2013

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2014	2013
Operating Revenues						
Interest income on loans	\$ 428,912	\$ 102,335	\$ 22,267	\$ -	\$ 553,514	\$ 630,443
Dividend income	-	44,091	-	-	44,091	40,624
Gain on sale of investment	36,600	-	-	-	36,600	10,330
Other	46,174	27,025	1,061	-	74,260	53,322
	<u>511,686</u>	<u>173,451</u>	<u>23,328</u>	<u>-</u>	<u>708,465</u>	<u>734,719</u>
Operating Expenses						
General and administrative	463,492	-	-	-	463,492	420,663
Depreciation expense	2,378	-	-	-	2,378	2,378
Bad debt expense (reserve decrease)	(7,474)	(482,043)	64,584	-	(424,933)	134,815
	<u>458,396</u>	<u>(482,043)</u>	<u>64,584</u>	<u>-</u>	<u>40,937</u>	<u>557,856</u>
Operating (Loss) Income	<u>53,290</u>	<u>655,494</u>	<u>(41,256)</u>	<u>-</u>	<u>667,528</u>	<u>176,863</u>
Nonoperating Revenue (Expense)						
Interest income on deposits and investments	3,100	2,595	156	476	6,327	9,683
Transfers	12,119	(12,119)	-	-	-	-
	<u>15,219</u>	<u>(9,524)</u>	<u>156</u>	<u>476</u>	<u>6,327</u>	<u>9,683</u>
State Appropriations Released from Restriction	<u>-</u>	<u>-</u>	<u>1,250,000</u>	<u>-</u>	<u>1,250,000</u>	<u>-</u>
Change in Net Assets	68,509	645,970	1,208,900	476	673,855	186,546
Net Assets, Beginning of Year	<u>15,168,286</u>	<u>8,496,943</u>	<u>(470,591)</u>	<u>951,681</u>	<u>24,146,319</u>	<u>23,959,773</u>
Net Assets, End of Year	<u>\$ 15,236,795</u>	<u>\$ 9,142,913</u>	<u>\$ 738,309</u>	<u>\$ 952,157</u>	<u>\$ 24,820,174</u>	<u>\$ 24,146,319</u>

North Dakota Development Fund, Inc.
Combining Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2014	2013
Operating Activities						
Other receipts (payments)	\$ 107,255	\$ 39,144	\$ 1,061	\$ -	\$ 147,460	\$ 77,008
Payments to suppliers	(456,111)	-	-	-	(456,111)	(420,663)
Net Cash (used for) Provided by Operating Activities	(348,856)	39,144	1,061	-	(308,651)	(343,655)
Non-Capital Financing Activities						
Inter-fund Transfers	12,119	(12,119)	-	-	-	-
Investing Activities						
Interest and dividends received	424,964	152,018	21,175	476	598,633	690,516
Purchase of equipment	-	-	-	-	-	(20,384)
Purchase of equity investments	(36,600)	-	-	-	(36,600)	(210,330)
Proceeds from the sale of equity investments	108,544	-	-	-	108,544	9,935
Sale of investments	-	-	-	-	-	1,000,966
Disbursements of business loans	(1,254,549)	(1,783,738)	(407,870)	-	(3,446,157)	(2,029,500)
Principal received on business loans	2,714,334	523,268	274,806	-	3,512,408	3,809,744
Net Cash (used for) Provided by Investing Activities	1,956,693	(1,108,452)	(111,889)	476	736,828	3,250,947
Net Change in Cash and Cash Equivalents	1,619,956	(1,081,427)	(110,828)	476	428,177	2,907,292
Cash and Cash Equivalents at Beginning of Year	7,389,057	5,909,587	360,126	951,681	14,610,451	11,703,159
Cash and Cash Equivalents at End of Year	\$ 9,009,013	\$ 4,828,160	\$ 249,298	\$ 952,157	\$ 15,038,628	\$ 14,610,451

North Dakota Development Fund, Inc.
Combining Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2014	2013
Reconciliation of Operating						
Gain (Loss) to Net Cash used in						
Operating Activities						
Operating gain (loss)	\$ 53,290	\$ 655,494	\$ (41,256)	\$ -	\$ 667,528	\$ 176,863
Adjustments to reconcile operating						
(loss) gain to net cash from						
operating activities						
Gain on sale of investment	36,600	-	-	-	36,600	10,330
Depreciation	2,378	-	-	-	2,378	2,378
Change in intercompany						
receivable (payable)	(12,119)	12,119	-	-	-	-
Gain on sale of investment	-	-	-	-	-	-
Allowance for doubtful						
loan receivables	101,070	(407,043)	64,584	-	(241,389)	(55,249)
Allowance for realized						
loss on investments	(108,544)	(75,000)	-	-	(183,544)	190,065
Reclassification of interest						
and dividend income	(428,912)	(146,426)	(22,267)	-	(597,605)	(668,042)
Changes in Assets and Liabilities						
Accrued Expenses	7,381	-	-	-	7,381	-
Net Cash (used in) Provided by						
Operating Activities	<u>\$ (348,856)</u>	<u>\$ 39,144</u>	<u>\$ 1,061</u>	<u>\$ -</u>	<u>\$ (308,651)</u>	<u>\$ (343,655)</u>
Supplemental Schedule of						
Noncash Activities						
Loan receivable written off	\$ -	\$ 129,091	\$ 115,660	\$ -	\$ 244,751	\$ 195,157
Equity investments written off	100,000	-	-	-	100,000	250,000



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